

**REPORT ON AUDITS OF COMBINED FINANCIAL
STATEMENTS AND SUPPLEMENTAL INFORMATION**

AS OF JUNE 30, 2001, AND FOR THE YEAR THEN ENDED



Report of Independent Accountants

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To the Teachers' Retirement Board
California State Teachers' Retirement System

In our opinion, based upon our audit and the report of other auditors, the accompanying combined statements of plan net assets and the related combined statements of changes in plan net assets present fairly, in all material respects, the plan net assets of the California State Teachers' Retirement System (System), a component unit of the State of California, as of June 30, 2001, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management; our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the System's Voluntary Investment Program (formerly, the 403(b) Program). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on those financial statements is based solely on the report of the other auditors. We previously audited and reported on the financial statements of the System for the year ended June 30, 2000, the reporting entity totals of which are included for comparative purposes only. We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules I and II is required under GASB Statement No. 25, *Financial Reporting For Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The supplemental information included in Schedules III through VII is presented for purposes of additional analysis and is not a required part of the financial statements. Such information as of and for the years ended June 30, 2001, 2000, 1999, 1998, 1997 and 1996, has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion and based on the report of other auditors, is fairly stated, in all material respects, in relation to the financial statements taken as a whole from which it has been derived.

A handwritten signature in dark ink, appearing to read "PricewaterhouseCoopers LLP", is written over a horizontal line.

September 21, 2001

California State Teachers' Retirement System
Combined Statements of Plan Net Assets
As of June 30, 2001
With reporting entity totals as of June 30, 2001 and 2000
(Dollars in Thousands)

	State Teachers' Retirement Plan	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Reporting Entity Totals	
					2001	2000
Assets						
Investments, at fair value:						
Short-term	\$ 2,344,115	\$ 21,427	\$ 4,454	\$ -	\$ 2,369,996	\$ 1,576,738
Debt securities:						
Domestic	28,888,678	1,150	-	-	28,889,828	27,236,691
International	-	42	-	-	42	58
Equities:						
Domestic	39,847,682	31,995	-	-	39,879,677	46,721,140
International	21,584,079	2,043	-	-	21,586,122	26,958,262
Alternative	4,489,768	-	-	-	4,489,768	5,105,654
Real estate	5,273,359	-	-	-	5,273,359	3,771,458
Securities lending collateral	17,727,789	-	-	-	17,727,789	16,107,099
Total investments	120,155,470	56,657	4,454	-	120,216,581	127,477,100
Cash	4,558	-	-	2	4,560	3,234
Receivables:						
Investments sold	1,030,317	91	-	-	1,030,408	1,942,014
Foreign currency exchange contracts	1,728,543	-	-	-	1,728,543	1,991,213
Interest and dividends	492,296	165	-	-	492,461	483,918
Member/employer and other	598,187	316	280	-	598,783	399,063
Total receivables	3,849,343	572	280	-	3,850,195	4,816,208
Other assets	343	-	1,571	-	1,914	338
Total assets	\$124,009,714	\$ 57,229	\$ 6,305	\$ 2	\$124,073,250	\$132,296,880
Liabilities						
Payable for investments purchased	\$ 1,175,125	\$ 26	\$ -	\$ -	\$ 1,175,151	\$ 1,116,018
Payable for foreign currency exchange contracts	1,684,084	-	-	-	1,684,084	1,976,317
Benefits in process of payment	82,146	-	1,921	-	84,067	69,959
Other liabilities	202,940	71	11	-	203,022	195,418
Securities lending collateral	17,727,789	-	-	-	17,727,789	16,107,099
Total liabilities	20,872,084	97	1,932	-	20,874,113	19,464,811
Net assets held in trust for pension benefits (a schedule of funding progress is presented in Schedule I)	\$103,137,630	\$ 57,132	\$ 4,373	\$ 2	\$103,199,137	\$112,832,069

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System
Combined Statements of Changes in Plan Net Assets
For the year ended June 30, 2001
With reporting entity totals for the years ended June 30, 2001 and 2000
(Dollars in Thousands)

	State Teachers' Retirement Plan	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Reporting Entity Totals	
					2001	2000
Additions						
Contributions:						
Members	\$ 1,843,457	\$ 14,732	\$ -	\$ -	\$ 1,858,189	\$ 1,546,172
Employers	1,883,915	-	4,800	15	1,888,730	1,590,891
State of California	946,194	-	-	-	946,194	939,232
Total contributions	4,673,566	14,732	4,800	15	4,693,113	4,076,295
Investment (loss) income:						
Net (depreciation) appreciation in fair value of investments	(13,460,750)	(6,891)	-	-	(13,467,641)	9,836,556
Interest, dividends and other investment income	3,244,266	1,792	26	-	3,246,084	2,863,191
Securities lending income	1,037,286	-	-	-	1,037,286	956,356
Less investment expenses:						
Cost of lending securities	(967,581)	-	-	-	(967,581)	(901,151)
Other	(85,226)	-	-	-	(85,226)	(61,252)
Net investment (loss) income	(10,232,005)	(5,099)	26	-	(10,237,078)	12,693,700
Other income	414	-	-	-	414	166
Total additions	(5,558,025)	9,633	4,826	15	(5,543,551)	16,770,161
Deductions						
Retirement, death and survivor benefits	3,764,632	250	-	12	3,764,894	3,435,518
Refunds of member contributions	77,477	2,288	-	-	79,765	82,247
Purchasing power benefits	189,388	-	-	-	189,388	190,478
Administrative expenses	54,536	344	453	1	55,334	50,775
Total deductions	4,086,033	2,882	453	13	4,089,381	3,759,018
Net (decrease) increase	(9,644,058)	6,751	4,373	2	(9,632,932)	13,011,143
Net assets held in trust for pension benefits:						
Beginning of year	112,781,688	50,381	-	-	112,832,069	99,820,926
End of year	\$ 103,137,630	\$ 57,132	\$ 4,373	\$ 2	\$ 103,199,137	\$ 112,832,069

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

1. Description of the System and Contribution Information

The California State Teachers' Retirement System (System) is the administrator of cost-sharing multiple-employer pension plans, a tax-deferred supplemental program, a post-employment healthcare benefits program and a replacement benefits program as described below, established and administered by those sections of the State Education Code known as the Teachers' Retirement Law (Section 22000 et. seq.), as amended and enacted by the State of California (State) Legislature. The System is a component unit of the State of California. These financial statements include only the accounts of the System. The System's financial statements are included as a trust fund in the financial statements of the State of California. The System provides pension benefits to California full-time and part-time public school teachers from preschool through grade fourteen and certain other employees of the public school system.

State Teachers' Retirement Plan (STRP)

Effective January 1, 1999, Chapter 1048, Statutes of 1998 (Senate Bill (SB) 2085) authorized the merger of the System's Cash Balance Plan (CB Plan) and the Defined Benefit Plan (DB Plan) to establish the State Teachers' Retirement Plan (STRP). Chapter 1048 provides, among other things, that both the Defined Benefit Program and the Cash Balance Benefit Program shall be administered under the Teachers' Retirement Law and be known and cited as the STRP. The Defined Benefit Supplement Program was established by Chapter 74, Statutes of 2000 (AB 1509), effective January 1, 2001, and is included in the STRP.

Defined Benefit Program (DB Program)

The DB Program is a defined benefit pension plan which operates under the Internal Revenue Code (IRC). At June 30, 2001, there were approximately 1,200 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State is a non-employer contributor to the STRP. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service. At June 30, 2000, membership consisted of:

Active members:	
Vested	240,092
Nonvested	180,438
Inactive members	75,580
Retirees and benefit recipients	165,282
Total members, retirees and beneficiaries	<u>661,392</u>

Information as of June 30, 2001, will not be available prior to December 2001.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

The DB Program provides defined retirement benefits based on members' final compensation, age, and years of credited service. In addition, the retirement program provides benefits to members upon disability, and to survivors upon the death of eligible members. Benefit provisions include:

- After five years of credited service, members become 100% vested in retirement benefits earned to date. Members are eligible for normal retirement at age 60. The normal retirement benefit is equal to 2% of final compensation for each year of credited service. Retirements after age 60 are subject to a factor which increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service shall receive an additional 0.2% of final compensation. In no event shall the total benefit factor exceed 2.4%.

Final compensation is defined as the highest average annual compensation during any period of twelve consecutive months for members who retire on or after January 1, 2001 with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elects to pay the additional benefit cost. For all other members, final compensation is defined as the highest average annual compensation earned during any three consecutive years of credited service. Early retirement options are available at age 55 or as early as age 50 with 30 years of credited service.

Members with 30 or more years of credited service who retire on or after January 1, 2001, receive a longevity bonus based on the number of years of credited service exceeding 30 years, if at least 30 years of service is credited prior to January 1, 2011.

- After five years of credited service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50% of final compensation plus 10% of final compensation for each eligible child, up to a maximum addition of 40%. The member must have a disability that will exceed a period of twelve or more months to qualify for a benefit.
- A family benefit is available if an active member died and had at least one year of credited service.
- Members' accumulated contributions are refundable with interest upon separation from the System. The 2000-2001 fiscal year rate of interest credited to members' accounts is 5.75%.

Purchasing power protection is provided to those benefit recipients whose purchasing power has been reduced below certain levels. The purchasing power protection is funded by a combination of School Lands Revenue and State General Fund (General Fund) contributions to the Supplemental Benefit Maintenance Account (SBMA). School Lands Revenue is appropriated pursuant to Public Resources Code Section 6217.5 from the use of school lands. The Cecil Green/William Campbell/Dave Elder Act of 1989 (Education Code Section 22954) established the SBMA to provide annual distributions (in quarterly payments) to retired and disabled members, and beneficiaries in order to restore purchasing power to a minimum of 68.2% of the initial monthly allowance. The Mrs. Ruth Q. dePrida Pension Protection Act, Chapter 939, Statutes of 1997 (SB 1026) increased the minimum purchasing power to 75%, effective January 1, 1998. The State's contributions for the year ended June 30, 2001, were sufficient to meet the purchasing power obligations.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

Required Contributions

Required member and employer contribution rates are set by the Teachers' Retirement Law. Required contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. The System also uses the level percentage of payroll method to calculate the amortization of any unfunded liability.

A summary of statutory contribution rates and other sources of contributions to the DB Program is as follows:

- | | |
|---------------------|--|
| Members | - 8% of applicable member earnings through December 31, 2000. Beginning January 1, 2001 through December 31, 2010, 6% of applicable member earnings. |
| Employers | - 8.25% of applicable member earnings. |
| State of California | - The enactment of Chapter 460, Statutes of 1990 (SB 1370), known as the "Elder Full Funding Act," provides for eventual full funding for the System. The provisions of the bill, which became effective July 1, 1990, replaced the prior State contribution with a new funding mechanism beginning July 1, 1991. The State's annual contribution to the System was 4.3% of the previous calendar year's member payroll. Subsequent to achieving a fully funded System, the State will contribute only the amount necessary to help fund the normal cost of the then current benefit program unless a subsequent unfunded obligation occurs. |

The enactment of Chapter 967, Statutes of 1998 (Assembly Bill (AB) 2804) provided for funding from the General Fund to maintain the fully funded status of benefits in place as of July 1, 1990, and provided funding for benefit enhancements enacted effective January 1, 1999. The provisions of Chapter 967 amended the State's contribution requirements under the Elder Full Funding Act.

Beginning July 1, 1999, under Education Code Section 22955, the General Fund transferred annually to the DB Program an amount equal to 3.102% of total creditable earnings of the immediately preceding calendar year to fund certain benefit enhancements effective January 1, 1999. The enactment of Chapter 1021, Statutes of 2000 (AB 2700) provided for a reduction in such funding from the General Fund to a factor of 2.5385% and 1.9750% in fiscal years 2001 and 2002, respectively.

Beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings of the immediately preceding calendar year was established under Education Code Section 22955. This contribution is reduced to zero if there is no unfunded obligation or normal cost deficit. As of the June 30, 2000, actuarial valuation, there was no unfunded obligation or normal cost deficit for benefits in place as of July 1, 1990.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

In their most recent actuarial valuation as of June 30, 2000, the System's independent actuaries determined that, at June 30, 2000, the actuarial value of the DB Program's assets exceeded the program's actuarial accrued liability by \$9.1 billion. Based on this valuation, the current statutory contributions are equivalent to 19.260% of covered payroll and the normal cost is 16.001% of covered payroll. Certain risks related to the global financial markets may affect the fair value of the System's investment portfolio. The System's management is continually evaluating the impact of market fluctuations on the assets of the DB Program.

Defined Benefit Supplement Program (DBS Program)

The DBS Program, established pursuant to Chapter 74, Statutes of 2000 (AB 1509), is a defined benefit pension program that operates within the STRP. All persons who were active members of the DB Program on or after January 1, 2000 are also members of the DBS Program.

Beginning January 1, 2001 and through January 1, 2011, two percent of applicable member earnings are credited to the members' nominal DBS Program accounts. Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 6.25% for the year ended June 30, 2001. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the expected rate of return.

An actuarial valuation of the DBS Program's assets and liabilities will be performed in connection with the System's 2001 DB Program and CB Benefit Program actuarial valuations. Management estimates that the benefit costs associated with the DBS Program will approximate \$2.9 billion, through the ten year life of the DBS Program.

Cash Balance Benefit Program (CB Benefit Program)

The CB Benefit Program, established under Chapter 592, Statutes of 1995 and subsequently amended by Chapter 608, Statutes of 1996 (AB 2673), is a separate defined benefit pension program. The CB Benefit Program operates under the IRC within the STRP and is designed for employees of California's public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position.

Participation in the CB Benefit Program is optional to school districts, community college districts, county offices of education and regional occupational programs. If a school district, community college district, county office of education, or regional occupational program elects to offer the CB Benefit Program, each eligible employee will automatically be covered by the program, unless the employee elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer.

A summary of statutory contribution rates for the CB Benefit Program is as follows:

Members	-	4% of applicable member earnings
Employers	-	4% of applicable member earnings

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met. At June 30, 2001, there were 24 contributing school districts and approximately 12,000 contributing members.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

At June 30, 2000, the actuarial value of the CB Benefit Program's assets exceeded the program's actuarial accrued liability by approximately \$517,000.

Voluntary Investment Program (VI Program)

The VI Program (formerly STRS 403(b) Program) was established pursuant to Chapter 291, Statutes of 1994. Under the requirements of IRC Section 403(b), the VI Program is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary and are not subject to a minimum limitation, however, the IRC establishes a maximum amount that can be contributed annually. At June 30, 2001, there were 2,655 plan members and 378 participating employers (school districts).

An agreement was entered into between the System and State Street Bank and Trust Company (SSB) on January 1, 1995, to appoint SSB as third-party administrator, record keeper and master custodian for the VI Program assets. The appointment will expire on June 30, 2002. The investments are comprised of money market, S&P 500, international index, self-managed and participant notes funds.

Teachers' Health Benefits Fund (THBF)

The THBF was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435) to provide postemployment health benefits to retired members of the DB Program. Beginning July 1, 2001, funds from the THBF will be used to pay Medicare Part A premiums for DB Program members who are retired or will retire prior to January 1, 2006, and who meet certain other eligibility criteria.

The THBF is funded as needed, from that portion of the monthly DB Program statutory employer contribution that exceeds the DB Program annual required contribution. Management believes that the current source of THBF funding will be adequate to provide for the statutory THBF benefits.

Teachers' Replacement Benefits Program Fund (TRBPF)

IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The TRBPF was established pursuant to Chapter 465, Statutes of 1999 (AB 819) and initially funded during the year ended June 30, 2001, to provide benefits to the members of the System whose defined benefit retirement benefit exceeds IRC limits.

The TRBPF is funded on a "pay-as-you-go" basis. Monthly employer contributions are received by the TRBPF and paid to members in amounts "equivalent to" the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2001, there were two retirees participating in the TRBPF.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounting records of the System are maintained on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and State contributions are recognized when due and the employer or State has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the System's retirement programs.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

Use of Estimates in the Preparation of Financial Statements

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and when applicable, disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Investments

The majority of the securities held in the investment portfolio at June 30, 2001, are in the custody of or controlled by SSB, the System's master custodian. State statutes and Board policies allow investments consisting of government, corporate and international bonds, domestic and international equities, mutual funds, limited partnership holdings, real estate, mortgages and other investments.

All investments are reported at fair value. The fair values of investments are generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, fair value is computed by management based on market yields and average maturity dates of comparable quoted securities. Mortgages are valued based on future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values are based on either recent estimates provided by the System's contract real estate advisors or independent appraisers. Short-term investments are reported at cost or amortized cost, which approximates fair value. Alternative investments represent interests in private equity partnerships in which the System enters under a limited partnership agreement. For alternative investments and other investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments.

The System presents, in the combined statements of changes in plan net assets, the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains and losses and the unrealized appreciation and depreciation on those investments. Purchases and sales of debt securities, equity securities and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

There are certain market risks, credit risks, foreign currency exchange risks and event risks which may subject the System to economic changes occurring in certain industries, sectors or geographies.

Foreign Currency Exchange Contracts

The STRP enters into forward foreign currency exchange contracts for hedging purposes to minimize the short-term impact of foreign currency fluctuations on the asset positions of foreign investments. These foreign currency exchange contracts are reported at fair value based on published market prices and quotations from major investment firms. The STRP could be exposed to risk if the counter-parties to the contracts are unable to meet the terms of their contracts. The STRP seeks to minimize risk from counter-parties by establishing minimum credit quality standards and maximum credit limits.

Administrative Expenses

The VI Program reimburses the STRP for administrative services provided on its behalf. The THBF reimburses the STRP for certain facilities operation expenses provided on its behalf.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

Income Taxes

The STRP is organized as a tax-exempt retirement plan under the IRC. The VI Program is organized as a tax-deferred supplemental program under the IRC. The System's management believes that it has operated within the constraints imposed by federal tax law. The THBF is organized as a tax-exempt postemployment health benefits plan under the IRC. The TRBPF is tax-exempt under the provisions of the IRC.

Investment Expenses

Expenses directly associated with investment management have been included as other investment expenses. Indirect expenses have not been allocated.

Securities Lending Transactions

The System reports securities lent, the cash collateral held as assets and the related liabilities resulting from securities lending transactions on the combined statements of plan net assets. The System also reports the costs of lending securities as investment expenses on the combined statements of changes in plan net assets.

Reclassification of Prior Year Amounts

Certain amounts in the prior year reporting entity totals have been reclassified to conform with the current year presentation.

New Accounting Pronouncements

In June 2000, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB 34 provides a financial reporting model for governmental entities that addresses four basic reporting elements: management's discussion and analysis, government-wide and fund financial statements, notes to the financial statements and required supplementary information. The System is currently evaluating the impact of GASB 34 on its financial statements and is required to implement the pronouncement for the year ending June 30, 2002. The System does not believe that the implementation of GASB 34 will have a material impact on its net assets or changes in net assets.

3. Investments

The System's investments are categorized below to give an indication of the category risk level assumed by the System at June 30, 2001, as defined by GASB Statement No. 3. Category 1, the lowest risk, includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent but not in the System's name. Investment pools managed by other governments, mutual funds, investments held by broker-dealers under securities loans, alternative investments and real estate equity investments are not categorized.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

The following table presents investments held by the STRP, by type, at June 30, 2001 (in thousands):

Investment Type	Category 1	Category 2	Category 3	Category Rating Not Required	Fair Value
Categorized:					
Short-term investments	\$ 316,568	\$ -	\$ -	\$ 2,027,547	\$ 2,344,115
Debt securities	19,081,890	-	-	-	19,081,890
Equity securities	53,457,957	-	-	-	53,457,957
Securities lending collateral	17,727,789	-	-	-	17,727,789
Not categorized:					
Alternative investments	-	-	-	4,489,768	4,489,768
Real estate equity investments	-	-	-	5,273,359	5,273,359
Investments held by broker-dealers under securities loans:					
Debt securities	-	-	-	9,806,788	9,806,788
Equity securities	-	-	-	7,973,804	7,973,804
Total investments	<u>\$90,584,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$29,571,266</u>	<u>\$120,155,470</u>

Short-term investments of the STRP as of June 30, 2001, are comprised of the following (in thousands):

Surplus Money Investment Fund	\$ 252,958
Commercial paper	76,995
Short-term agencies	24,867
Repurchase agreements	7,628
Short-term Investment Fund	1,774,589
Certificates of deposit	147,000
Treasury bills	7,079
Foreign currency	52,999
	<u>\$2,344,115</u>

The STRP's investment in the Surplus Money Investment Fund (SMIF), administered by the State, represents various investments with average days to maturity of approximately 180 days, and is reported at amortized cost which approximates market value.

The STRP's investment in the Short-term Investment Fund, administered by State Street Bank, represents various investments with average days to maturity of approximately 72 days, and is reported at amortized cost which approximates market value.

The STRP's repurchase agreement transactions at June 30, 2001, have underlying collateral with market values of approximately 100% of the amount of the transactions.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held temporarily in foreign interest-bearing accounts until it is able to be repatriated or expended.

State statutes and Teachers' Retirement Board policies permit the STRP to lend its securities to broker-dealers and other entities for which collateral is received with a simultaneous agreement to return the collateral for the same securities in the future. STRP has contracted with third party securities lending agents to lend domestic and international equity and debt securities. All securities loans can be terminated on demand by either STRP or the borrower. Collateral in the form of cash or other securities is required for 102% and 105% of the fair value of domestic and international securities, respectively, loaned. As of June 30, 2001, the System has no credit risk exposure to borrowers because the amounts the STRP owes the borrowers exceed the amounts the borrowers owe the STRP. Cash collateral is invested in short-term investments, which at year-end have a weighted-average maturity of less than 90 days, and the assets held as collateral are presented in the above table of investments held. STRP is not permitted to pledge or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify STRP if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay STRP for income distributions by the securities' issuers while the securities are on loan.

VI Program

Investments held by the VI Program are in mutual funds and are not required to be categorized by risk levels under GASB Statement No. 3.

Teachers' Health Benefits Fund

Investments held by the THBF are in the SMIF and are not categorized under GASB Statement No. 3.

4. Contingencies

The STRP is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these litigations is not expected to have a material adverse effect on the STRP's financial position.

5. Commitments

In connection with the purchase of various partnership interests under its alternative investment portfolio, the STRP has remaining funding commitments of approximately \$4.9 billion at June 30, 2001.

The STRP has entered into agreements to guarantee payment of principal and interest on certain debt securities in the event that the primary obligator defaults. The STRP is paid a fee over the term of such agreements, and in the event of default, the STRP could draw on a standby letter-of-credit for repayment. At June 30, 2001, the STRP had commitments of approximately \$1.2 billion expiring through September 2007. Fee income earned by the STRP was approximately \$2.8 million for the year ended June 30, 2001.

Supplemental Information

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Funding Progress
June 30, 2001

Schedule I

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Defined Benefit Program ⁽³⁾ (dollars in millions):						
2001	(1)	(1)	(1)	(1)	(1)	(1)
2000	\$ 102,225	\$93,124	\$ (9,101)	110 %	\$18,224	(50)%
1999	90,001	86,349	(3,652)	104 %	17,185	(21)%
1998	77,290	74,234	(3,056)	104 %	15,741	(19)%
1997	67,980	69,852	1,872	97 %	14,521	13 %
1996	(2)	(2)	(2)	(2)	(2)	(2)

Cash Balance Benefit Program ⁽³⁾ (dollars in thousands):

2001	(1)	(1)	(1)	(1)	(1)	(1)
2000	\$ 10,868	\$10,351	\$ (517)	105 %	\$70,605	(1)%
1999	5,224	5,001	(223)	104 %	50,426	0 %
1998	790	1,728	938	46 %	18,838	5 %
1997	(393)	164	557	(240)%	4,504	12 %

(1) The 2001 actuarial reports will be available during the year ended June 30, 2002.

(2) Prior to June 30, 1998, no actuarial reports were prepared in even numbered years. No estimation using actuarial methodology was made in years between valuations.

(3) Effective January 1, 1999, the Defined Benefit Plan (DB Plan) and the Cash Balance Plan (CB Plan) merged to establish the State Teachers' Retirement Plan which includes the Defined Benefit Program (DB Program) and the Cash Balance Benefit Program (CB Benefit Program). All actuarial data prior to year ended June 30, 1999, relates to the DB Plan and CB Plan.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Contributions from Employers and Other Contributing Entities
For the Year Ended June 30, 2001 **Schedule II**

The information presented in Supplemental Schedules I and II was determined as part of the actuarial valuations at June 30, 2000.

Year Ended June 30	Annual Required Contribution (a)	Contributed By Employers⁽¹⁾ (b)	Contributed By the State⁽²⁾ (c)	Total Contributed (b + c)	Percentage Contributed (b + c)/a
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Defined Benefit Program⁽³⁾ (dollars in millions):

2001	\$ 2,035	\$ 1,880	\$ 455	\$ 2,335	115%
2000	1,150	1,584	519	2,103	183%
1999	1,473	1,492	209	1,701	115%
1998	1,911	1,419	587	2,006	105%
1997	1,835	1,299	555	1,854	101%
1996	1,726	1,196	530	1,726	100%

Cash Balance Benefit Program⁽³⁾ (dollars in thousands):

2001	\$ 3,036	\$ 3,036	\$ -	\$ 3,036	100%
2000	2,365	2,365	-	2,365	100%
1999	1,561	1,561	-	1,561	100%
1998	772	772	-	772	100%
1997	74	74	-	74	100%

(1) For DB Program years ended June 30, 1998 and earlier, amounts include employer contributions under Education Code Sections 22950 to 22953. For the years ended June 30, 1999 and thereafter, amounts include employer contributions under Education Code Sections 22950 and 22951. For the year ended June 30, 2000, amount includes employer contributions under Education Code Sections 22135, 22714 (less amounts deposited in the SBMA) and 22718.

(2) For DB Program, includes state contributions under Education Code Section 22955.

(3) Effective January 1, 1999, the DB Plan and the CB Plan merged to establish the STRP which includes the DB Program and the CB Benefit Program. All actuarial data prior to year ended June 30, 1999, relates to the DB Plan and CB Plan.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Contributions from Employers and Other Contributing Entities
For the Year Ended June 30, 2001 **Schedule II (Continued)**

Additional information as of the June 30, 2000 actuarial valuation is as follows:

	DB Program	CB Benefit Program
Actuarial Cost Method	Entry age normal	Traditional Unit Credit
Amortization Method	Level percent of payroll	Not applicable
Amortization Period	Open	Not applicable
Remaining Amortization Period	Zero	Not applicable
Asset Valuation Method	Expected value with 33% adjustment to market value	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	4.25%	4.25%
Consumer price inflation	3.50%	3.50%
Post-retirement benefit increases	2.00% simple	Not applicable

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Administrative Expenses
For the Year Ended June 30, 2001
(Dollars in Thousands)

Schedule III

Personnel services:

Salaries and wages	\$ 23,273
Staff benefits	4,109
Accrued vacations	(3)
Total personnel services	<u>27,379</u>

Operating expenses and equipment:

General expense	227
Depreciation expense	88
Printing	802
Communications	561
Postage	636
Insurance	10
Travel	220
Training	202
Facilities operations	2,777
Consultants and professional services	4,730
Consolidated data center:	
Consultants and professional services	7,820
Data processing:	
Consultant and professional services	7,273
Software and other	209
Central administrative services	1,872
Equipment	42
Other	1
Total operating expenses and equipment	<u>27,470</u>
Total current year expenses that are budgeted	<u>54,849</u>

Past prior year expenses, net	(313)
Total	<u>\$ 54,536</u>

Fund sources:

SBMA/administration expense	\$ 59
Reimbursements	426
Revenue	10
Refunds to reverted appropriation	765
Budget Act, Chapter 282, Statutes 1997	244
Reappropriated Chapter 282, by Chapter 324/98	(1,076)
Budget Act, Chapter 324, Statutes 1998	600
Reappropriated Chapter 324, by Chapter 50/99	1,000
Budget Act, Chapter 50, Statutes 1999	51,441
Legislation, Chapter 740, Statutes 1999	481
Legislation, Chapter 632, Statutes 1999	586

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
For the Year Ended June 30, 2001
(Dollars in Thousands)

Schedule IV

External equity managers:

Domestic:

Ariel Capital Management	\$ 1,427
Barclays Global Investors	2,029
Brison Partners	1,529
Brown Capital Management Inc.	1,035
Chicago Equity Partners	1,436
Delaware Investment Advisors	554
Delphi Management, Inc.	897
Denver Investment Advisor Inc.	1,259
DSI International Management	275
First Quadrant	510
Mellon Capital Management	507
NCM Capital Management Group Inc.	1,800
Putnam Investments	4,037
Sasco Capital, Inc	2,834
State Street Bank Global Advisors	2,158
TCW Asset Management	5,018
Total domestic	<u>27,305</u>

International:

Bank of Ireland	2,583
Barclays Global Investors	1,428
Battery March	888
Blackrock International Ltd.	1,222
Brinson Partners	1,557
Capital Guardian Trust	5,441
Delaware International Trust	1,410
Fidelity Management Trust Co.	1,657
Fiduciary Trust International	1,908
Goldman Sachs	1,239
Lazard Freres Asset Management	2,684
Marvin & Palmer Associates Inc.	2,753
Morgan Stanley	1,635
Newport Pacific Management	1,071
Nicholas Applegate	2,238
Oechsle International Advisors	2,656
Schroder Capital Management Investment, Ltd.	1,817
Scudder Kemper	2,334
State Street Global Advisors	1,338
Total international	<u>37,859</u>
Total external equity managers	<u>65,164</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
For the Year Ended June 30, 2001
(Dollars in Thousands)

Schedule IV (Continued)

Real estate managers/advisors:	
CB Richard Ellis	5,108
Clarion Partners	963
Heitman Capital MGMT LLC	988
Lend Lease Real Estate Inv	3,673
Lowe Enterprises	493
MIG Realty Advisors, Inc.	593
SSR Realty Advisors	1,323
Sentinel Realty Advisors	67
Thomas Properties	293
Total real estate managers/advisors	<u>13,501</u>
Advisors and consultants:	
Callan Associates	4
Houlihan Loke Howard & Zukin	196
KPMG LLP	259
The McMahan Group	59
Pathway Capital Management, LLC	1,255
Pendleton James Assoc.	99
Pension Consulting Alliance	480
Total advisors and consultants	<u>2,352</u>
Attorneys, master custodian and insurers:	
Cox, Castle & Nicholson	20
Groom Law Group	54
Robert Driver Ins Brokerage	217
State Street Bank & Trust Co.	3,517
Total attorneys, master custodian and insurers	<u>3,808</u>
Other Expenses:	
CSUS Foundation	12
Miscellaneous	146
State Controller's Office	22
State Personnel Board	1
Travel	220
Total other expenses	<u>401</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
For the Year Ended June 30, 2001
(Dollars in Thousands)

Schedule V

Individual or Firm	Commission/ Fee	Nature of Service
Consulting and professional services:		
Alameda County Office of Education	\$ 78	Regional Counseling Services
Annette Knous Wimmer	125	Consulting Services
Azusa Pacific University	13	Medical Reimbursement
California State University Foundation	15	Consulting Services
Campbell Union High School District	111	Regional Counseling Services
Contra Costa County Office of Education	78	Regional Counseling Services
Cooperative Personnel Services	20	Consulting Services
Department of Justice	212	General Services Legal Fees
Department of Personnel Administration	13	Legal Services
Fresno County Office of Education	62	Regional Counseling Services
Goldfarb & Associates	27	Vocational Assessments and Reports
Hogan & Hartson	208	Advocate and Legal Representation
Kathleen M. Ogburn	12	Vocational Assessments and Reports
Kern County Office of Education	75	Regional Counseling Services
Law Office of Carroll & Scully	31	Legal Services
Liebman & Associates	35	Vocational Assessments and Reports
Lindle Hatton	35	Consulting Services
Los Angeles County Office of Education	480	Regional Counseling Services
Los Angeles County Supt. Of Schools	150	Regional Counseling Services
Maria Caseillas	24	Vocational Assessments and Reports
Merced County Office of Education	19	Regional Counseling Services
Milliman and Robertson	328	Actuarial Services
MSLA, A Medical Corporation	28	Vocational Assessments and Reports
Office of Administrative Hearings	20	Legal Services
Orange County Office of Education	154	Regional Counseling Services
PricewaterhouseCoopers LLP	73	Audit and Consulting Services
Ralph St. Pierre	44	Consulting Services
San Bernardino County Office of Education	252	Regional Counseling Services
San Diego County Office of Education	311	Regional Counseling Services
San Francisco County Office of Education	31	Regional Counseling Services
San Joaquin County Office of Education	59	Regional Counseling Services
San Juan Unified School District	130	Regional Counseling Services
San Mateo-Foster School District	71	Regional Counseling Services
Santa Barbara County Office of Education	56	Regional Counseling Services
Santa Cruz County Office of Education	75	Regional Counseling Services
Shasta County Office of Education	110	Regional Counseling Services
Solano County Office of Education	30	Regional Counseling Services
Sonoma County Office of Education	64	Regional Counseling Services
Stanislaus County Office of Education	30	Regional Counseling Services
State Controller's Office	750	Various Financial Services
Superior Rehabilitation Services	22	Vocational Assessments and Reports
Towers, Perrin & Forster	13	Consulting Services
Travel/Tuition	44	Medical Reimbursement
Tulare County Office of Education	35	Regional Counseling Services
Ventura County Office of Education	43	Regional Counseling Services
Visual Communications	24	Consulting Services

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
For the Year Ended June 30, 2001
(Dollars in Thousands)

Schedule V (Continued)

Individual or Firm	Commission/ Fee	Nature of Service
Data Processing:		
Advanced Business Integrators	15	Data Processing
California Systems Consultants	52	Data Processing
Dapru, Incorporated	80	Data Processing
Doculabs	18	Data Processing
Eclipse Solutions	90	Data Processing
Information Technology	215	Data Processing
Nanran	959	Data Processing
NEC Business Network	47	Data Processing
Net Incomm Incorporated	609	Data Processing
New Boston Technical Services	75	Data Processing
Novell	23	Data Processing
Paladin Enterprise, Incorporated	32	Data Processing
Pilot Computer Systems	180	Data Processing
Saga Software	317	Data Processing
Science Applications	55	Data Processing
Software AG of N.A., Incorporated	57	Data Processing
Synergy Consulting	415	Data Processing
Visionary Integration	1,434	Data Processing
Western Blue Corporation	85	Data Processing
Worldgroup	2,504	Data Processing
Other	11	Various Services Under \$10
	<u>7,273</u>	
Consolidated Data Center:		
Stephen P. Teale Data Center	7,800	Data Processing
California Health & Human Services	20	Data Processing
	<u>7,820</u>	
Total consultant and professional services expenses	\$ 10,823	

California State Teachers' Retirement System
Voluntary Investment Program
Schedule of Administrative Expenses
For the Year Ended June 30, 2001
(Dollars in Thousands)

Schedule VI

State Street Bank administrative fees	\$ 322
State Teachers' Retirement Plan sponsor fee	<u>22</u>
Total	<u>\$ 344</u>

California State Teachers' Retirement System
Teachers' Health Benefits Fund
Schedule of Administrative Expenses
For the Year Ended June 30, 2001
(Dollars in Thousands)

Schedule VII

Personnel services:

Salaries and wages	\$ 45
Staff benefits	9
Accrued vacations	6
Total personnel services	<u>60</u>

Operating expenses and equipment:

General expense	145
Printing	12
Postage	29
Facilities operations	35
Data processing:	
Consultant and professional services	163
Software and other	1
Equipment	8
Other	
Total operating expenses and equipment	<u>393</u>
Total current year expenses that are budgeted	<u>\$ 453</u>

Fund sources:

Legislation, Chapter 1032, Statutes of 2000	<u>\$ 453</u>
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